CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

GRAY DRUG STORES, INC.

Annual Report to Shareholders..

FOR THE FISCAL YEAR ENDED JUNE 30, 1948

MRB
Corp. File

In Memoriam

With great regret we record the passing of two members of Gray's Board of Directors.

THOMAS H. JONES
Member of the board from 1931 to 1948

LEOPOLD J. WOLF
Member of the board from 1930 to 1947

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE—2400 SUPERIOR AVENUE
CLEVELAND, OHIO

LABORATORY—1707 CRAWFORD ROAD
CLEVELAND, OHIO

BOARD OF DIRECTORS

EDWARD E. BARKER.....Vice-President, The Cleveland Trust Company
CARLYLE W. EVANS.....Vice-President, Secretary and Assistant Treasurer, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
FRANK E. JOSEPH.....Partner, Jones, Day, Cockley and Reavis
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
ADOLPH WEINBERGER....President and Treasurer, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER.....President and Treasurer
CARLYLE W. EVANS.....Vice-President, Secretary and Assistant Treasurer
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Controller
JOSEPH VALINS.....Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

AUDITORS

ERNST and ERNST.....Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

REPORT TO SHAREHOLDERS

September 13, 1948

To our Shareholders:

This report presents the results of your Company's operations for the past fiscal year ended June 30, 1948.

EARNINGS

Net income for the past year, after deducting all charges including taxes, was $293,263, or $2.11 a share of Common Stock, as compared with $2.71 a share for the preceding year. The net operating profit before taxes (which excludes profit on the sale of stores and all other non-operating income) was $417,769 for the past year, as compared with $566,928 for the preceding year, representing a decrease of approximately 26%.

The decrease in net operating profit for the past year resulted in large part from increases in operating costs, particularly wages, rents, advertising rates and store maintenance. These increases in operating costs, which have affected retail business generally, have not been offset by the relatively modest increases in retail drug prices. The Company's net operating profit was also reduced by substantial expenses of a non-recurring nature in connection with an important improvement program undertaken during the year—a program which should materially strengthen the Company's future competitive position.

STORES

During its twenty year history the Company has grown from seven stores to a chain embracing 78 stores, and this rapid growth has been based on a merchandising policy which emphasized high sales volume rather than high profit margins. Changing conditions within the retail drug industry in recent years, however, indicate the desirability of replacing small stores with larger units which not only permit more efficient and economical store operation, but also offer greater opportunities for promoting lines of merchandise upon which profit margins are relatively high. In recognition of this trend the Company during the past year sold fifteen of its smaller stores, acquired two new stores, and enlarged or remodeled six existing stores. Plans are now in progress for opening nine additional new stores, most of which will replace smaller units, and for enlarging or remodeling certain other stores.

MODERNIZATION

Significant steps were also taken during the past year in modernizing and consolidating the Company's warehouse facilities. Major warehouse improvements include the addition of a complete new loading dock and the installation of a mechanized conveyor system. The Lock Haven, Pennsylvania, warehouse, including part of its stock of merchandise, was sold and the balance of the merchandise transferred to the Cleveland warehouse.

The activities outlined above involved large expenditures, some of which adversely affected current operating profit, but they should contribute substantially to the Company's future earning power.

FINANCIAL POSITION

The Company is in a strong financial position. In November, 1947 the Company borrowed $1,500,000, of which $1,000,000 represented a 3-¾% loan from The New England Mutual Life Insurance Company, maturing from 1953 to 1962, and $500,000 represented a 2-¾% loan from The Cleveland Trust Company, maturing from 1948 to 1952. This loan transaction enabled the Company to retire its existing bank indebtedness and also provided additional working capital. At June 30, 1948, cash balances aggregated $1,524,097, and the ratio of current assets to current liabilities was 4 to 1.

ACCOUNTING

During the year the Company's accounting system was improved by the installation of machine accounting methods under the supervision of its new Controller, Lloyd C. Douglass, who was formerly associated with Ernst & Ernst and is proving to be a valuable addition to the management of the Company. The new methods will give the Company a greater degree of control over the operations of its stores.

BOARD

The deaths during the year of Thomas H. Jones and L. J. Wolf, who served as directors of the Company almost from its inception, have been recorded elsewhere in this report. In addition, we regret to record the resignation of J. G. Gosling as a director. Frank E. Joseph has been elected to fill the vacancy created by the death of his former partner, Thomas H. Jones.

On behalf of the Board of Directors, I wish to express thanks and appreciation for the loyal and efficient service of our employees and for the confidence and interest of our shareholders.

Respectfully submitted,

Adolph Weinberger

President

Gray's Modern New Super Stores

GRAY'S DRUG STORE
10412 Euclid Avenue
Cleveland, Ohio

The past year has seen the opening of new Gray's stores, as well as the enlarging and remodeling of certain key locations. Your company is proud of its progress in the field of drug store designing, layout and display. These new stores are Gray's answer to today's demands in a highly specialized and complex operation—modern drug store merchandising.

GRAY'S DRUG STORE
Greyhound Bus Terminal
Cleveland, Ohio

TOMORROW'S DRUG STORES ....HERE TODAY

GRAY'S DRUG STORE
14954 St. Clair Avenue
Cleveland, Ohio

During the past year we completed the enlargement and remodeling of our largest unit, located at E. 105th St. and Euclid Ave., Cleveland. This store, open 24 hours a day, has almost doubled in volume since remodeling. It is, we believe, the largest volume drug store in Ohio.

A modern Gray's store was also opened in the new downtown Greyhound Bus Terminal, Cleveland—where Gray's operate both this store and the busy lobby news stand.

Gray's store at 14954 St. Clair Ave., Cleveland—newly enlarged and remodeled—is typical of the large neighborhood units now being planned.

Several views of the above three new units are shown on these pages.

GRAY'S DRUG STORE
14954 St. Clair Avenue
Cleveland, Ohio

PRESCRIPTIONS

are still the heart of the drug store. Gray's competent pharmacists perform their professional work in spotlessly clean, glass-enclosed departments.

FOUNTAINS

in Gray's new stores are equipped with sanitary, gleaming stainless steel fixtures—streamlined for efficient, high-speed service.

CIGAR DEPARTMENTS

now feature thermostatically-controlled "humidor sections", assuring Gray's customers of continuously fresh cigars and tobaccos.

COSMETICS

are displayed to best advantage in full-view cases. Gray's stores maintain complete stocks of most nationally-known lines.

ACCOUNTANTS REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and its subsidiaries as of June 30, 1948, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of Gray Drug Stores, Inc., and its subsidiaries at June 30, 1948, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 26, 1948

CONSOLIDATED BALANCE SHEET

GRAY DRUG

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits			$1,524,097.28
Trade accounts receivable, less reserve of $5,000.00			141,486.16
Tax stamps—state			52,030.84
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$1,736,174.40	
At warehouse		635,520.97	
At laboratory		23,118.33	
		$2,394,813.70	
In transit		73,202.55	2,468,016.25
TOTAL CURRENT ASSETS			$4,185,630.53
OTHER ASSETS			
United States Treasury Bonds—at cost—Note A		$ 154,500.00	
Receivable for capital stock subscribed for by officers and employee		62,300.00	
Cash surrender value of life insurance		58,695.63	
Refundable federal taxes on income of prior years—estimated		23,290.68	
Miscellaneous receivables, deposits, etc.		24,343.00	323,129.31
FIXED ASSETS—at cost, less reserves for depreciation and amortization			
Land		$ 21,091.10	
Furniture and fixtures, etc.	$1,622,313.83		
Leasehold and leasehold improvements	820,480.17		
	$2,442,794.00		
Less reserves for depreciation and amortization	1,194,637.33	1,248,156.67	1,269,247.77
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 42,500.49	
Taxes		28,352.88	
Other		25,191.54	96,044.91
			$5,874,053.52

STORES, INC., AND SUBSIDIARIES, JUNE 30, 1948

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES

Notes payable—portion due within one year			$ 102,652.57
Accounts payable:			
Trade accounts		$ 579,230.56	
Salaries, wages, and commissions		85,851.82	
Pay roll taxes and taxes withheld from employees		45,658.61	710,740.99
Accrued:			
Taxes (other than taxes on income)		$ 91,346.16	
Rent and interest		52,042.57	143,388.73
Federal and state taxes on income-estimated		$ 228,510.69	
Less United States Treasury Savings Notes at cost plus accrued interest		151,302.00	77,208.69
TOTAL CURRENT LIABILITIES			$1,033,990.98

LONG-TERM DEBT

Notes payable:			
To insurance company—Note B	$1,000,000.00		
Less portion classified as current	2,652.57	$ 997,347.43	
To bank:			
Payable in semiannual installments of $50,000.00 each	$ 450,000.00		
Less portion classified as current	100,000.00	350,000.00	
To others—notes maturing April 9, 1950 Note A		150,000.00	1,497,347.43

DEFERRED CREDIT

Deposit received in connection with proposed sale of lease—Note C			25,000.00

CAPITAL STOCK AND SURPLUS

Capital stock (without par value):			
Authorized 150,000 shares			
Stated capital:			
Outstanding 138,675	$1,691,875.00		
Subscribed 3,325	63,175.00	$1,755,050.00	
Surplus—Note B:			
Capital surplus	$ 256,647.07		
Earned surplus	1,306,018.04	1,562,665.11	3,317,715.11
			$5,874,053.52

See notes to financial statements.

CONSOLIDATED PROFIT & LOSS STATEMENT

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1948

Net sales		$16,811,849.90
Cost of goods sold		11,150,697.58
		$ 5,661,152.32
Selling, general and administrative expenses		5,243,383.41
		$ 417,768.91
Other income:		
Gain on disposal of fixed assets—net	$ 126,311.86	
Revenue from telephones, etc.	21,903.81	
Interest earned	6,477.36	
Miscellaneous	2,774.28	157,467.31
		$ 575,236.22
Other deductions:		
Interest expense	$ 47,923.06	
Provision for loss on bad debts	5,000.00	52,923.06
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 522,313.16
Federal taxes on income—estimated:		
Provision for the year: Normal income tax and surtax	$ 210,000.00	
Adjustment of prior years provisions and credits	19,050.31	229,050.31
NET PROFIT		$ 293,262.85

See notes to financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1948

CAPITAL SURPLUS			
Balance at July 1, 1947, and June 30, 1948—no change during the year			$ 256,647.07
EARNED SURPLUS			
Balance at July 1, 1947		$1,044,982.41	
Additions:			
Net profit for the year	$ 293,262.85		
Reserve for contingencies transferred to earned surplus	148,000.00	441,262.85	
		$1,486,245.26	
Cash dividends declared:			
$.32½ a share paid Oct. 1, 1947	$ 45,014.16		
$.32½ a share paid Jan. 2, 1948	45,071.00		
$.32½ a share paid Apr. 1, 1948	45,071.02		
$.32½ a share paid July 1, 1948—Note D	45,071.04	180,227.22	
BALANCE AT JUNE 30, 1948			1,306,018.04
TOTAL SURPLUS AT JUNE 30, 1948			$1,562,665.11

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1948

NOTE A

The United States Treasury Bonds have been deposited with an escrow agent as collateral security for the notes payable to others.

NOTE B

This note matures in semiannual installments of $50,000.00 each beginning either May 1, 1953, or the May 1st or November 1st next succeeding the payment in full of the note payable to bank (unpaid balance of $450,000.00 at June 30, 1948). In addition, the Company is required to make additional payments in each year to the extent of 20% of the excess of consolidated net profit for the preceding year over $280,000.00, but such additional payment in one year shall not exceed $100,000.00. The loan agreement includes, among other things, certain requirements relative to maintenance of net current assets, and certain restrictions as to the payment of dividends. Under the foregoing provisions, the amount of earned surplus not available for dividends at June 30, 1948, was $1,139,657.41.

NOTE C

The Company has entered into an agreement to sell, on July 15, 1949, for a consideration of $100,000.00, a lease covering certain premises, a part of which is occupied by one of the Company's stores. Pending such sale, the proposed purchaser has assumed the rights and obligations of the Company under the lease (under the terms of a sublease) and has granted to the Company a lease (to April 30, 1965) covering the portion of the premises now occupied by the Company. At June 30, 1948, the amount of $25,000.00 had been received as a deposit in connection with the foregoing agreement, and the amount of $62,500.00 (not included in the balance sheet) had been deposited in escrow by the proposed purchaser.

NOTE D

Prior to June 30, 1948, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1948.

NOTE E

Provisions for depreciation and amortization aggregated $206,628.59 for the year.

NOTE F

The officers of the Company have no knowledge of any contingent liabilities other than pending claims for personal damages, etc., as to which, considering the nature of such claims and the amounts involved, the proceedings are not expected to result in any losses of material amounts to the Company or its subsidiaries.

GRAY DRUG STORES, INC.

OPERATING STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Barberton
Bexley
Canton
Cleveland
Cleveland Heights
Columbus
East Cleveland
Fremont
Garfield Heights
Lakewood
Mansfield
Massillon
Painesville
Rocky River
Sandusky
South Euclid
Steubenville
Warren
Wooster
Youngstown

PENNSYLVANIA

Bradford
Erie
Indiana
Kittanning
Punxsutawney

NEW YORK

Corning
Cortland
Elmira
Ithaca
Oneida